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SUBJECT: Proposed Daimler-Chrysler Cost-Cutting Measures

Spark Union Outrage

REF: BERLIN 2178

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11. (U) SUMMARY: Emulating an earlier approach by Siemens, German auto giant Daimler-Chrysler has demanded from IG Metall cuts in bonuses under the threat of moving 6,000 jobs from their main plant in Sindelfingen to either Bremen (where the Mercedes C-Class model costs 500 Euro less to produce) or South Africa to save 500 million Euro (USD 617 million). The Daimler-Chrysler works council has agreed to make concessions totaling 180 million Euro so far. On July 15, about 80,000 Daimler-Chrysler employees participated in a nationwide two-hour strike to protest the company's drastic cost-cutting plans. Daimler-Chrysler management has expressed provisional willingness to reduce management salaries as a gesture of goodwill to works council and union members. Daimler sources are confident that they can reach an agreement that allows C-Class production to remain in Sindelfingen. END SUMMARY.

12. (U) In response to sluggish sales, Daimler-Chrysler has called for cost reductions totaling 500 million Euro for its 42,000-employee Sindelfingen plant, the primary site of C-Class production and the largest Mercedes plant in Germany. Using its production facility in Bremen as a model, the company is seeking concessions from its works council and the Metal Workers Union (IG Metall) on cutting special bonuses granted only to workers in Baden-Wuerttemberg, including a five-minute break every hour and late-shift supplements starting at noon. B-W Daimler employees also currently enjoy three more public holidays per year than their Bremen colleagues. Mercedes Chief Juergen Hubbert claims that Bremen employees work 72 more hours per year than their Sindelfingen colleagues and attributes the disparity to the "Baden-Wuerttemberg disease." Hubbert has called for the elimination of these "Sindelfingen" benefits by spring of 2005 and has threatened relocation of C-Class production to Bremen or South Africa if union and works council do not accept the reductions. Relocation of C-Class production would make approximately 6000 jobs at the Sindelfingen facility redundant.

13. (U) In response to management's demand, Daimler-Chrysler's works council has agreed to cost reductions totaling 180 million Euro so far, but indicated that further cuts also required concession by management. Erich Klemm, chairman of the Daimler-Chrysler works council, and Joerg Hoffmann, chief of IG Metall Baden-Wuerttemberg, accuse Daimler-Chrysler management of jumping on the Siemens bandwagon to extend the workweek and cut benefits (reftel). Klemm described Hubbert's offer as a violation of existing contracts and said that management proposed the cuts only to increase its own profit margin. Worker response has been considerable: on July 10 and 17, ten thousand employees failed to report for the early shift at the Sindelfingen plant, and on July 15, 60,000 Daimler-Chrysler workers participated in a nationwide "action day" to protest the Daimler-Chrysler initiative.

14. (U) B-W Minister-President Erwin Teufel (Christian Democrat-CDU) condemned Hubbert's use of the term "Baden-Wuerttemberg disease" while conceding that B-W needed to extend its workweek to remain competitive. Teufel noted that Daimler-Chrysler should coordinate any curtailment of Christian holidays with B-W churches. B-W employer association chairman Hans-Eberhard Koch concurred with Teufel's assessment that Hubbert's statement was far too negative but agreed that relatively higher labor costs in Baden-Wuerttemberg were a barrier to effective competition within Germany.

15. (U) In a lunch with consulate representatives, Daimler-Chrysler chief economist Peter-Ruediger Puf echoed the message that labor and production costs in SW Germany were too high. Puf took issue, however, with the tenor of Hubbert's cost-cutting strategy and criticized as unhelpful

his threat to move production facilities to South Africa. He noted that it would have been better to advertise the cuts as a necessary step to keep jobs and production at home. He pointed out that Daimler-Chrysler competitor BMW does not provide additional Sindelfingen-style benefits to its employees and as a result enjoys a cost advantage of around eight percent. (NOTE: Other observers also cite BMW's highly flexible production schedule virtually around the clock, six days a week as a significant reason for the company's cost advantage. END NOTE.)

16. (U) On July 15, Daimler-Chrysler CEO Juergen Schrempp expressed his public expectation that a compromise could be reached and added that he expects a resolution of the dispute by July 23 or earlier. Schrempp qualified Hubbert's use of the term "Baden-Wuerttemberg disease" by saying that the term applied only to working conditions in Sindelfingen and not to B-W as a whole. Meanwhile, a company spokesperson confirmed on July 18 that management has agreed to wage cuts as an incentive for works council and union to accept the overall package of cost reductions.

17. (SBU) COMMENT: Mercedes has long been the most important profit center within the Daimler-Chrysler group. In 2003, the Mercedes-Benz group contributed 3.1 billion Euro to Daimler-Chrysler's overall 5.7 billion Euro net operating profit. Daimler-Chrysler often has used its extensive benefits system in SW Germany to negotiate favorable packages with IG Metall and worker representatives that smaller companies are unable to match.

18. (SBU) COMMENT (cont'd): Chrysler Group COO and Mercedes heir apparent Wolfgang Bernhard lost his job recently for discussing publicly the need for cost-cutting measures and the movement of production facilities abroad. Hubbert's absolutist ultimatum has further aggravated sensitivities on this issue and alienated some labor representatives. Since Hubbert's announcement, Daimler has focused on damage control (downplaying his comment on the "Baden-Wuerttemberg disease") and concessions designed to entice labor back into the fold (the mooted cuts in management compensation.) Although the company likely will reach a compromise that allows production to remain in Sindelfingen, Daimler's initial lack of surefootedness in announcing the cuts has certainly muddied the waters. END COMMENT.

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